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SUBJECT: FORUM HIGHLIGHS CHALLENGES, OPPORTUNITIES IN MEXICO-CHINA ECONOMIC RELATIONSHIP

SUMMARY

¶1. The UN Economic Commission for Latin America, the Mexican Senate, and Mexico's Secretary of Foreign Relations hosted a bilateral forum March 6-7 on Sino-Mexican economic relations. Participants in "Opportunities in the Economic and Commercial Relations: China - Mexico in the Latin American Context," urged Mexicans to start viewing China as a potential partner instead of a threat. The forum began with Autonomous University of Mexico (UNAM) professor Enrique Dussel Peters emphasizing that Mexico must devote more energy to developing the relationship, something in which it has not put much effort up to this point. Yin Xingmin, Professor at the Fundan University in Shanghai, pointed out that as an emerging world power, China has taken an interest in its prospects in Latin America. While other countries, such as Brazil, Argentina, and Chile are leading the way in commerce with Asia, Mexico has fallen behind. Participants considered the prospects for bilateral trade, focusing on Mexico's comparative advantages and weaknesses. Chinese exhibitors Yin Xingmin and Li Jian Hua, President of Sinatex, a Chinese textile company with investments in Mexico, suggested ways in which Mexico could work with China to complement its trade and attract Chinese investment. Participants paid special attention to the textile, electronics, and tourism sectors comparing strengths and weaknesses of the Mexican and Chinese economies. End summary.

PAYING MORE ATTENTION TO CHINA

¶2. Head official of the International Trade and Investment Promotion Office of the Secretary of the Economy, Eduardo Solis Sanchez, emphasized that Mexico must devote more energy to developing its relationship with China, a point all three major candidates for the Mexican Presidency have mentioned in their platforms. While Solis said Mexico did not want to negotiate an FTA with China, other exhibitors promoted the idea of an Agreement for the Protection and Reciprocal Promotion of Investments, (APPRI) as a step towards improving commercial relations.

¶3. While Mexico is the top importer of Chinese goods in Latin America, its exports to China fall far behind those of its counterparts. Solis argued that "the U.S. and EU did not wait for China to join the WTO, they anticipated it.

Mexico has to anticipate further developments in China," but suggested that it may be too late. Moreover, China has been participating as an observer of many Latin American institutions, and some exhibitors called for Mexico to pay more attention to Asian banks and organizations.

¶4. Other participants, however, including Valentin Diez, President of the Mexican Chamber for Foreign Trade, and Mexican Senator Dulce Maria Sauri who heads the Asia-Pacific Relations Committee, hinted that Mexico has missed its window of opportunity by depending too heavily on trade with North America and ignoring options for diversifying exports.

¶5. Fulbright scholar Carol Wise and UNAM Professor Enique Dussel Peters presented viewpoints on the Mexico-China economic relationship. While Wise believed Mexico still had time to close the gap with China, Dussel felt that Mexico has recognized too late the importance of China. Although Mexico could still find niches for cooperation with China, advocating its position as a platform to reach the western hemisphere will be difficult since China has stronger ties to South American countries. Several exhibitors at the conference made suggestions: Mexico must exploit its advantage of being a member of NAFTA and the U.S.'s southern neighbor to compete with Asia. Instead of focusing on jobs lost in the manufacturing sector, Mexico needs to turn its attention to increasing the global services it offers and developing high value added products to move into the next stage of economic development.

MEXICO'S POTENTIAL BENEFITS AND LOSSES

¶6. Participants discussed the prospects for bilateral trade, focusing on Mexico's comparative advantages and weaknesses. Mexico's proximity to the U.S. reduces logistics and transport costs. China-U.S. transport costs increased seven per cent in 2005. Mexico could offer alternative ports south of the border such as Manzanillo or Lazaro Cardenas to take advantage of overburdened facilities in the western U.S. One participant argued that Mexico could also offer a base to produce or finish Chinese goods for the U.S. market to minimize shipping costs.

¶7. Exhibitors also noted that Mexico's intellectual property rights record, while spotty, is much better than China's, making it a better option for the production of easily copied technical goods, such as printer cartridges. Custom made products such as individually designed PCs require a quick turnaround time and are therefore easier to manufacture south of the border than overseas. For some products such as medical supplies and measuring instruments, quality outweighs price and production has remained in Mexico. Larger products with a high weight to value ratio, such as refrigerators or automobiles benefit from Mexico's lower shipping costs.

¶8. Conversely, cheap, easily shipped, labor intensive goods such as textiles, toys, games, dolls, counter-top appliances, sporting goods, and footwear lend themselves to production in China. Mexican manufacturers of these products are losing market share in the U.S. to Chinese exports. Additionally, China benefits from knowledge spillover from manufacturing high tech products and uses foreign investment to promote fast learning techniques which allow China to catch up on the latest technology, while Mexico does not. Mexican competitors complain that China reaps unfair advantages by neglecting human rights, subsidizing production, and violating property rights, which allows the Chinese to export cheap, illegal copies of high value products to flood the Mexican market.

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RECOMMENDATIONS TO BOOST MEXICO'S COMPETITIVENESS
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¶9. Chinese participant Li Jian Hua, President of Sinatex, a Chinese textile firm operating in Mexico, suggested ways in which Mexico could work with China to complement its trade and attract Chinese investment. According to Chinese businesses investing in production in Mexico, tax and fiscal policies hamper their efforts to expand investment. They suggest simplifying the bureaucracy to facilitate opening a business, which takes much longer than in other countries and varies greatly from state to state. Moreover, they complained about lack of loyalty of employees and the restrictions on the number of foreign employees permitted per company, which decreases their productivity.

TARGET SECTORS FOR COOPERATION

¶10. Beyond the general discussion, the conference focused on the textile, electronics, and tourism sectors to illustrate strengths and weaknesses of the Mexican economy in comparison with China. Textile producers noted the upcoming decline of Mexican textile exports as the U.S. drops import quotas and exports from China and other Asian countries take market share due to cheaper labor costs. Producers will consolidate supply chains to five or six countries versus as many as twenty. Rafael Zaga, President of Canaintex, the Mexican National Chamber of the Textile Industry, and Tony Kuri of the Mexican National Dress Industry Chamber, criticized China's human rights abuses and the non-transparent manner in which China supplies its factories with resources. They noted Mexico's time-to-market advantage was a niche and suggested that Mexican producers switch to heavier items, such as jeans, or high quality designer clothing.

¶11. Participants commented that the electronics sector will face several challenges from increasing Chinese competition. Plants along the border will confront a decreasing pool of skilled and unskilled labor as the Mexican birthrate declines and a number of eligible applicants migrate north. Mexico must further develop talent in basic technical skills

and encourage the development of regional clusters to exploit economies of scale as Chinese producers make up lost ground. China has also invested in R&D, but bureaucracy and frequent personnel shuffling behind R&D efforts in China have hindered the innovation process. The electronics producers suggested that Mexico could exploit this weakness by aggressively pursuing comprehensive R&D policies in order to sustain an advantage in the sector over a longer period.

¶12. Gabriel Szekely, Chief of Staff to the Mexican Tourism Secretary, noted that many affluent Chinese tourists have

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already traveled to Mexico for leisure following its approval as an "acceptable" destination. He added that Mexico would exploit its tourist infrastructure to attract the growing Chinese market, which is expected to become the world's 4th largest provider of tourists by 2020. Szekely added that tourism can be a tool to help bridge the gap between the two countries and help alleviate Mexicans' suspicions of Chinese culture. Problem areas for increased Chinese tourism in Mexico include visa regulations and the lack of information available in the Chinese language. Presenter Vivian Lee of Omega International Group suggested a training program for Mexican tour guides in China, a multilingual tourist assistance hotline, and that Mexicans direct themselves to the appropriate regulating officials and target consumers of China's tourism market.

COMMENT

¶13. Mexico's difficulties raising its level of exports to China are no different than its problems expanding exports globally. While rising fuel, and hence rising transport costs have given Mexico a temporary pause in the growing onslaught of Chinese products destined for the U.S. market, Mexico is far from achieving the level of innovation necessary to compete with the Chinese.
GARZA